

# Durham Convention Center Management Agreement Update

*January 6, 2011*





# Agenda

- **Brief historical update**
- **Update on Phase II physical upgrades**
- **Conclusion of current management agreement → RFP for new operator**
- **Entering into new DCC management agreement with Global Spectrum**



# Historical Update

- Facility built in 1987
- City & County own land, financed construction of DCC, gave hotel 75 yr. “air lease”
- Shaner bought Omni Hotel in 1996 and brought it under the Marriott flag
- Management Agreements with Shaner:
  - 1996 to 2005 – Model A: flat fee, plus approved costs (avg. operating deficit of \$898,872)
  - 2005 to 2010 – Model B: higher, variable fee that was closer to all-inclusive



# Phase II Capital Upgrades

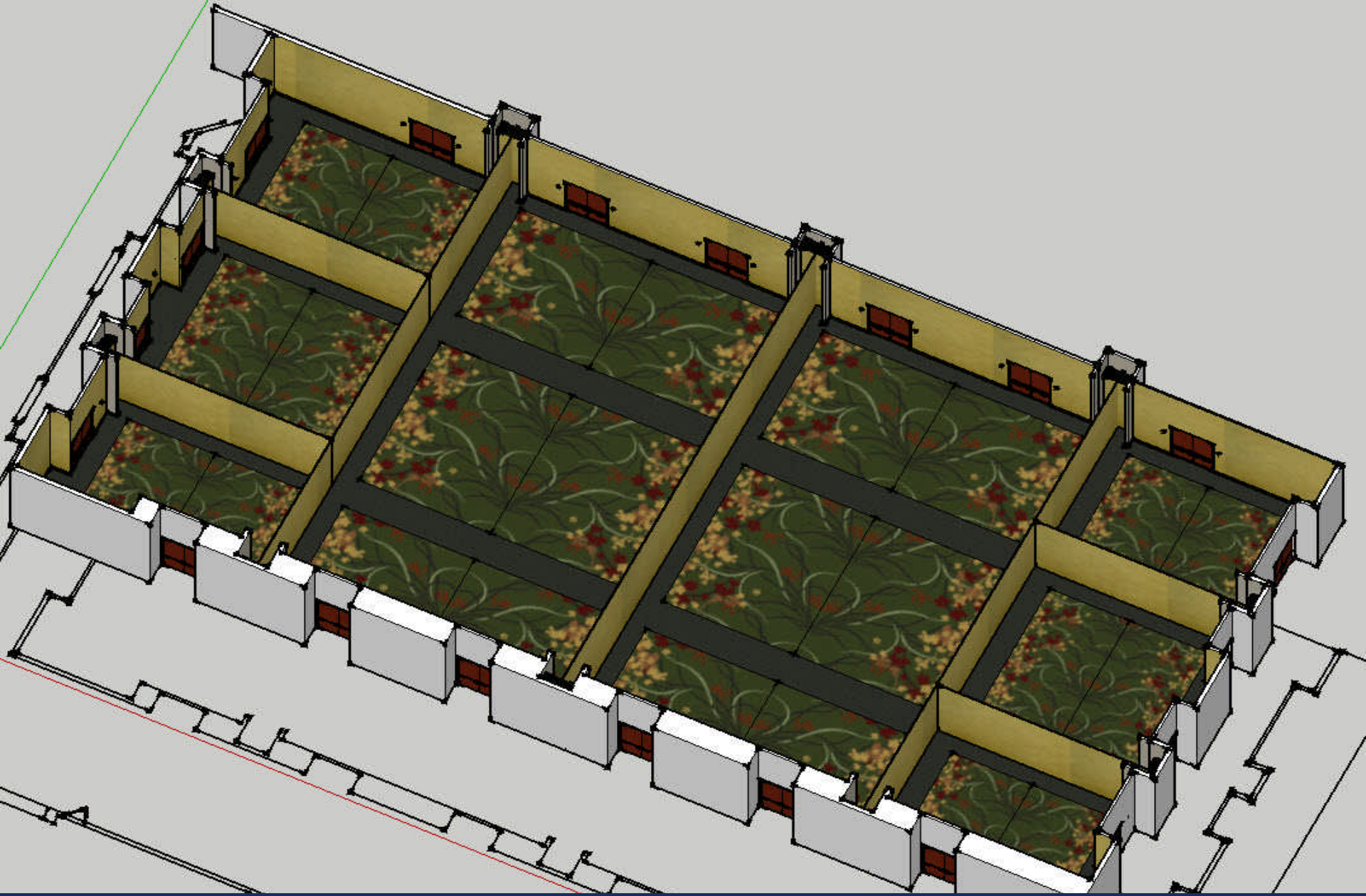
- **Scheduled for January – July 2011**
- **Design and Construction Cost: \$6.511m**
- **Main Components:**
  - **Life cycle replacement of roofing / HVAC**
  - **Revised layout enabling 6 break-out mtg. rooms**
  - **A-V / IT system upgrades to all meeting spaces**
  - **New interior finishes in many areas & main corridor**
  - **ADA access and code upgrades**





**New Pre-Function Corridor**





**New Ballroom Divisions**



**New Ballroom Rendering**



# Comparison of Annual Operating Deficits

Year	Operating Deficit
FY05-06	(\$1,099,832)
FY06-07	(\$794,590)
FY07-08	(\$898,960)
FY08-09	(\$1,263,568)
FY09-10	(\$1,393,226)
AVG.	(\$1,090,035)





# Why Put DCC Mgmt. Out For Bid?

- 15 yrs. without asking the market to speak
- Persistent, high deficits (avg. ~ \$1.1m / yr.)
- → Hunden report indicated (\$650k/yr.) possible
- Past agreement lacked proper incentives
- Shaner not able to reduce deficits and did not show how to reduce deficits in their proposal
- 2011 construction provided natural break



# Global Spectrum's Bid

- Did their homework
- Showed ability to provide seamless operations and improve bottom line at similar facilities
- Gave detailed plan for reducing costs and increasing revenues
- *Was top choice all 7 reviewers*
- DCC Authority unanimously recommends approval of contract with Global Spectrum



# Global Spectrum Business Plan Overview

- DCC more fully utilized (currently 25-30%)
- All DCC activity generates revenue for Owners
- Food & beverage to become major revenue generator
- Full cooperation with other area hotels to enable larger events / increase DCC utilization





# Global Spectrum Business Plan Overview

- Full pursuit of any business that improves DCC bottom line regardless of hotel occupancy
- Seamless relationship between hotels and adjacent convention centers is standard procedure
- Full transparency / open book accounting



# **Global Spectrum Business Plan Approach**

- **Increase Sales from \$1,500,000 in FY09-10 up to \$1,650,000 in FY11-12**
- **Provide full food & beverage (F&B) services**
- **Invest in new kitchen upfitting**
- **Payback investment through F&B revenues**
- **Global provides General Manager with strong culinary background**



# **Global Spectrum Business Plan Approach**

- **Create 30% F&B margins**
- **Cut costs from DCC historical levels up to 21.5% in staff, utilities, facilities, management to budgets**
- **Earn management fee, plus incentives through increased performance**
- **Report through metrics and profit and loss statements**





# Global Spectrum Business Plan - The Numbers

- **Base Management Fee = \$100,000 (FY11-12)**
- **Increases over 5 years by CPI**
- **Incentive Fee Potential (equal to the base fee)**



# **Global Spectrum Business Plan- The Numbers**

- **Quantitative Example (up to 75% of incentive cap) - Increase Sales from FY09-10 of \$1,500,000 up to \$1,650,000 in FY11-12 yields \$30,000 in incentive fee due to sales increase over base period**
- **Qualitative (up to 25% of incentive cap) - \$5000 for each:**
  - **Customer Service**
  - **Cooperation with DCC Authority and DCVB**
  - **Overall Financial Performance**
  - **Asset Management**
  - **Creative/Effective Marketing**



# **Global Spectrum Case Study A**

## ***(Conference & Event Center Niagara Falls)***

- Global assumes mgmt. in Jan. 2009
- **By Jan. 2010, achievements included:**
  - Increase in corporate sales by 250%
  - Increase in special events by 20%
  - 30% decrease in utility expenses
  - 11% decrease in labor expenses
  - 24% decrease in indirect expenses
  - Generated 10% new room nights for hotel
  - *Year end: 83% reduction in net loss compared to prior yr. under hotel mgmt. (\$126k vs. \$728k)*





# **Global Spectrum Case Study B**

## ***(Pueblo Convention Center)***

- Global managed from construction ('97) on
- Slightly smaller than DCC
- 2009 a record-breaking year for revenue
- 3 yr. avg. net loss: \$463,000
- Customer satisfaction (2009) – 4.86 of 5
- Bid package included recommendation letter from attached Pueblo Marriott



# Global Spectrum Kitchen Proposal

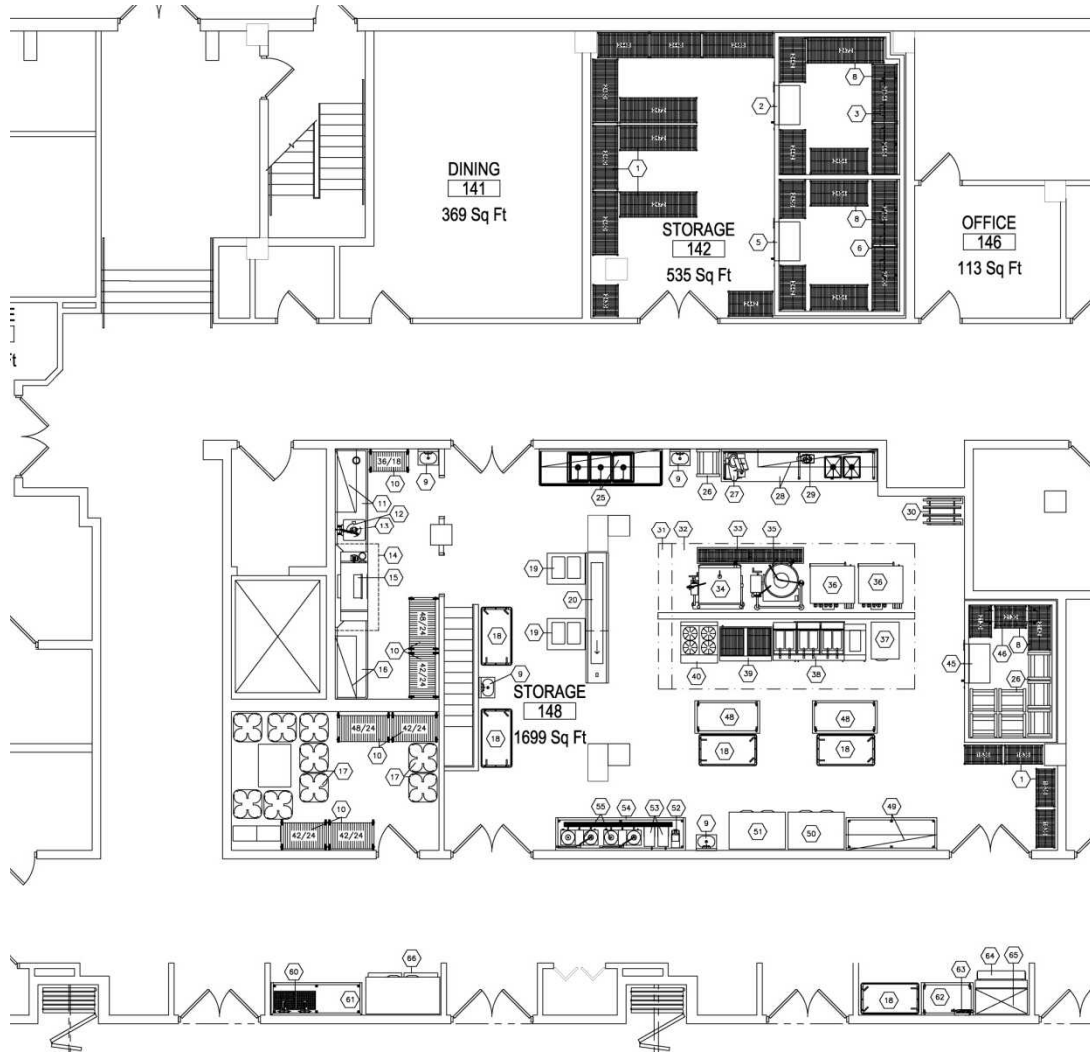
- Food and beverage profit margin should not only be positive, but 30%+
- In-house food provision will improve bottom line
- Global proposes creation of 2<sup>nd</sup> full kitchen
- Outfitting kitchen partially financed from F&B revenue over 3 yrs
- Using re-purposed space (~ 2,000 s.f.)

# Existing and Proposed (New) Kitchen



- Blue = Proposed Kitchen
- Green = Existing Kitchen
- Yellow = DCC Meeting Spaces

# Proposed (New) Kitchen





# Proposed Contracts with Global Spectrum

- **6 month pre-opening contract (thru 6/30/2011):**
  - \$383,000 (managing within FY10-11 budget)
  - Includes \$48k mgmt. fee + expenses
  - Management, sales & marketing ramped up first
  - Additional staff brought on as preparation / events require
  - Staged construction / completion allows for Full Frame, Project Graduation, and a few other events





# Proposed Contracts with Global Spectrum

- **3 yr. mgmt. contract w. 2 yr. renewal option:**
  - **\$727,596 proposed operating budget for FY11-12**
  - **Overall improvement of \$665,000 over FY09-10**
  - **City/County savings of \$458,000 over FY09-10 paid**
  - **Overall costs cut by over 20% / staffing costs down 15%**
- **Seek 10% bottom line improvement each FY after**



# Proposed Contracts with Global Spectrum

- **\$100,000 mgmt. fee in first year (less than Shaner), increasing by CPI index (approx. 4%) annually**
- **Up to \$100,000 in incentives possible**
- **Up to \$75,000 based on revenue improvements**
- **Up to \$25,000 based on qualitative performance**



# Details To Iron Out With Shaner / Hotel

- **Real Estate Issues**: Existing kitchen, other DCC spaces currently utilized by Shaner's DCC staff and/or hotel staff
- **Shared costs for Phase II upgrades in shared spaces**
- **Management of ongoing joint operations**: security, maintenance of shared spaces, HVAC and utility issues, etc.



# Noted Concerns

- Loss of Marriott “flag”: Not likely.
- “It will hurt downtown”: Not likely.
- “Will be like the Armory”: Not true.



# Introduction of Global Spectrum

- **Todd Glickman, Vice President of Business Development**
- **Barry Strafacci, Regional Vice President and Vice President of Special Projects**
- **Jennifer Noble, Assistant General Manager of the Conference and Event Center at Niagara Falls (*proposed General Manager for the Durham Convention Center*)**





# Questions?